

Sub 3 =

Sub 4 =

Sub 5 =

Sub 6 =

Sub 6, LLC =

Sub 7 =

Sub 8 =

Sub 9 =

Sub 10 =

Sub 11 =

Merger Sub =

Various Services =

Segment A =

Business A1 =

Business A2 =

Business A3 =

Business A4 =

Business A5 =

Business A6 =
Segment B =

Business B1 =

Business B2 =

Segment C =

Business C1 =

Business C2 =

Business C3 =

Segment D =

Business D1 =

Business D2 =

Business D3 =

Bank 1 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Year 1 =

\$a =

\$b =

\$c =

\$d =

\$e =

g =

Dear :

This letter responds to your May 12, 2006 letter requesting rulings as to the federal income tax consequences of a series of proposed transactions. The information submitted in that request, and in later correspondence dated July 10, 2006, July 14, 2006, August 4, 2006, August 8, 2006, August 16, 2006, August 18, 2006, and August 31, 2006 is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in the support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. Moreover, no information provided by the taxpayer has been reviewed and no determination has been made regarding whether the proposed transaction: (i) satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b); (ii) is used principally as a device for the distribution of earnings and profits of the distributing corporation or the controlled corporation or both (see § 355(a)(1)(B) of the Internal Revenue Code and Treas. Reg. § 1.355-2(d)); and (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or the controlled corporation.

FACTS

Distributing is a publicly traded domestic corporation with a single class of common stock outstanding. Distributing is the common parent of an affiliated group of corporations that files a consolidated federal income tax return. Shareholder A owns more than five percent of Distributing common stock but does not have a representative on Distributing's board of directors or participate actively in the management of Distributing. Holdco and Internal Newco are domestic corporations that have been newly formed in connection with the proposed transactions, and each has a single class of voting common stock outstanding. Distributing announced its plan to effect the transactions described herein on Date 2.

As of Date 1, in addition to other third party indebtedness, Distributing had approximately (i) \$a in commercial paper outstanding ("Historic CP") and (ii) \$b face amount of specified longer-term notes with maturity dates ranging from Date 3 to Date 4 ("Historic Distributing Long-Term Debt").

Prior to the consummation of the transactions described herein, Distributing may issue, in addition to other indebtedness, commercial paper, the proceeds of which will be used to pay principal or interest on Historic Distributing Long-Term Debt ("Refinancing CP"). Between Date 1 and the date of the transactions described herein, the amount of Distributing's outstanding commercial paper has and will fluctuate.

Distributing directly owns all of the outstanding stock of Sub 1, Sub 2, Sub 3, Sub 4, Sub 5, and Sub 6. Sub 1 directly owns all of the outstanding stock of Sub 7, Sub 8 and Sub 9. Sub 7 directly owns all of the outstanding stock of Sub 10. All of the foregoing are domestic corporations.

Distributing, through its foreign and domestic subsidiaries, currently provides Various Services throughout the world. It generally conducts these services in four segments: Segment A, Segment B, Segment C, and Segment D.

Distributing generally intends to separate the retail portion of Segment A from its other services. The retail portion of Segment A includes Business A1, Business A2, Business A3, and Business A4 (with Businesses A1, A2, A3, and A4, collectively, the "Retail Service Businesses"). Sub 2 indirectly engages in Business A1 through its subsidiaries, while each of Sub 3 and Sub 4 directly engages in Business A2. The stock of each of Sub 2, Sub 3, and Sub 4 was acquired by Distributing in taxable transactions during the five-year period prior to the distribution. Sub 5 licenses certain Sub 8 trademarks and trade names from the owner of the trademarks and trade names, Sub 11, and sub-licenses these trademarks and trade names to Sub 8 affiliates that intend to use these trademarks and trade names in their businesses.

The portion of Segment A consisting of Business A5 and Business A6 are not part of the Retail Service Businesses and therefore will remain with Distributing. Likewise, the businesses comprising Segment B (Business B1 and Business B2), Segment C (Business C1, Business C2 and Business C3) and Segment D (Business D1, Business D2 and Business D3) will remain with Distributing.

Sub 1 conducts the Retail Service Businesses through Sub 8, which directly engages in each of the Retail Service Businesses. Sub 8 has directly engaged in Business A1 for more than five years.

Sub 1 also indirectly conducts Business B1 through its wholly-owned subsidiary, Sub 7, which itself indirectly conducts Business B1 through its wholly-owned subsidiary, Sub 10, which directly engages in Business B1. Sub 10 has directly engaged in Business B1 for more than five years.

Distributing acquired 100-percent of the outstanding, publicly-traded stock of Sub 1 in Year 1 through the merger of Merger Sub, a newly-formed, wholly-owned subsidiary of Distributing, with and into Sub 1 with Sub 1 surviving and the Sub 1 shareholders

receiving Distributing voting stock (and cash in lieu of fractional shares) valued at approximately \$d (the "Sub 1 Merger").

At the time of the Sub 1 Merger, it was Distributing's common practice to acquire a nominal number of shares of its competitors. By doing so, Distributing was placed on each competitor's shareholder mailing list and thereby became entitled to receive information provided to shareholders. As part of this practice, shortly before the agreement effecting the Sub 1 Merger was signed, Distributing acquired 10 shares of Sub 1 stock in the open market for approximately \$e in cash (the "Nominal Share Purchase"). The Nominal Share Purchase occurred prior to the time Distributing was first contacted by an investment bank acting on behalf of Sub 1 concerning a possible combination of Distributing and Sub 1. The 10 shares of Sub 1 stock acquired by Distributing in the Nominal Share Purchase were cancelled in the Sub 1 Merger.

Sub 6 directly engages in Businesses C1 and C2. Sub 6 will convert under applicable state law into a single-member liability company wholly owned by Distributing, as described in step (ii) below. Sub 6 has directly engaged in Businesses C1 and C2 for more than five years.

The taxpayer has submitted financial information indicating that each of Business A1, Business B1, Business C1 and Business C2, as conducted by Distributing through its relevant subsidiaries, has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Distributing's management has determined that the separation of the Retail Service Businesses from Distributing's other businesses will serve a number of corporate business purposes, including: (1) allowing the managements of Distributing and Holdco to focus their attention and financial resources on their own distinct businesses and business challenges and providing Holdco's management with the flexibility to invest excess cash flow generated by the Retail Service Businesses in various initiatives that would otherwise be constrained if the Retail Service Businesses remained a part of Distributing, (2) allowing the managements of Distributing and Holdco to pursue desired acquisitions without creating conflicts with the businesses of the other entity, (3) allowing each of Distributing and Holdco to develop employee incentive programs more directly linked to the performance of the businesses conducted by each and (4) improving the likelihood that each of Distributing and Holdco will receive appropriate market recognition of its performance and potential.

TRANSACTION STEPS

Distributing intends to consummate the separation of the Retail Service Businesses from its other businesses. Following this separation, Holdco and its subsidiaries will conduct the Retail Service Businesses, while Distributing and its subsidiaries will continue to conduct Distributing's other businesses. In order to

optimize the credit ratings for each of Distributing and Holdco, it is important that, in connection with the transactions described herein, the Holdco group effectively assume a specified level of Distributing debt. The foregoing will be accomplished through a series of transactions, described more fully below, pursuant to which, in general:

(i) Sub 1 will distribute to Distributing its short term note (the “Sub 1 Note”) and Distributing will contribute concurrently to Sub 1 the shares of Sub 2. The Sub 1 Note will bear interest and will have a face amount approximately equal to the Sub 1 Note’s fair market value at the time issued. The Sub 1 Note’s fair market value will exceed that of Sub 2. Sub 2 will be treated as having been purchased for the portion of the Sub 1 Note equal to Sub 2’s fair market value, with the remaining portion of the Sub 1 Note treated as a dividend distribution from Sub 1 to Distributing (the “Sub 1 Dividend”). The amount of the dividend will not exceed Distributing’s basis in the stock of Sub 1 (determined prior to the effects of the Internal Spin-Off described below). Sub1 is planning to distribute the Sub 1 Note rather than cash to avoid certain potential indenture restrictions.

(ii) Sub 6 will be converted into Sub 6, LLC, a limited liability company, through the filing of a certificate of conversion (the “Conversion”). As a result of the Conversion, Distributing will become the owner of 100-percent of the outstanding membership interests of Sub 6, LLC.

(iii) The stock of certain Sub 1 subsidiaries (most notably, Sub 9 and Sub 7) not engaged in the Retail Service Businesses will be contributed by Sub 1 to Internal Newco, a newly-formed, wholly-owned subsidiary of Sub 1 (the “Internal Newco Contribution”), and the stock of Internal Newco (“Internal Newco Common Stock”) will be distributed by Sub 1 to Distributing (the “Internal Spin-Off”). Prior to the Internal Newco Contribution, (i) certain promissory notes receivable held by Sub 1 having Sub 9 as obligor will be contributed by Sub 1 to Sub 9, and (ii) certain promissory notes receivable held by Sub 1 having Sub 7 as obligor will be contributed by Sub 1 to Sub 7.

(iv) Pursuant to a separation and distribution agreement to be entered into by Holdco and Distributing (the “Separation Agreement”), Distributing will contribute (a) the stock of Sub 1, Sub 3, Sub 4 and Sub 5, and (b) real estate, intellectual property and other assets specified in the Separation Agreement (such real estate, intellectual property and other assets, collectively the “Other Assets”) to Holdco, and Holdco will deliver in exchange therefor the Consideration (defined below) (the “Contribution”).

(v) As part of the Contribution, and also pursuant to the Separation Agreement, Holdco will deliver to Distributing consideration (the “Consideration”) for the Contribution. The Consideration delivered by Holdco will consist of Holdco common stock (“Holdco Common Stock”), Holdco debt instruments (the “Holdco Securities”) and cash.

The cash portion of the Consideration (i) will be funded out of the proceeds of certain Holdco borrowings (the “Holdco Borrowings”) and (ii) will not exceed the sum of Distributing’s tax basis in—(A) the stock of Sub 1 and the other Distributing subsidiaries contributed to Holdco in the Contribution (taking into account the adjustments to the basis of the Sub 1 stock resulting from the Sub 1 Dividend and the Internal Spin-Off), and (B) the Other Assets.

The Holdco Securities portion of the Consideration will bear stated interest, unconditionally payable at least annually, and will have a maturity of at least 10 years. It is expected that, at the time of issuance, the Holdco Securities will have a fair market value approximately equal to their stated principal amount. The debt represented by the Holdco Borrowings and the Holdco Securities might be guaranteed by certain subsidiaries of Holdco, including Sub 1, possibly in connection with a cross-guarantee by Holdco of Sub 1 debt.

(vi) Distributing will distribute Holdco’s outstanding common stock on a pro rata basis to record holders of Distributing common stock on the record date for the Holdco Spin-Off (or their designated transferees) (“Distributing Stockholders”) (the “Holdco Spin-Off”, and with the Internal Spin-Off, the “Spin-Offs”).

(vii) Following the Holdco Spin-Off, pursuant to an exchange agreement (as described more fully below, the “Exchange Agreement”) between Distributing and one or more investment banks (collectively, “Investment Bank”), Distributing will transfer the Holdco Securities delivered as part of the Consideration to Investment Bank in exchange for certain Eligible Debt (as described below) previously acquired by Investment Bank (the “Debt Retirement”). Absent an unexpected delay, the Debt Retirement will occur on the same day as the Holdco Spin-Off.

At some time during the seven-day period prior to the date of the Holdco Spin-Off, Investment Bank, Distributing, and possibly Holdco will enter into the Exchange Agreement pursuant to which Distributing will agree to deliver to Investment Bank Holdco Securities in exchange for the delivery by Investment Bank to Distributing of Eligible Debt previously acquired by Investment Bank.

For purposes of the Debt Retirement, the aggregate value of the Eligible Debt given up by Investment Bank, on the one hand, and of the Holdco Securities, on the other hand, will be determined on a date specified in the Exchange Agreement (the “Valuation Date”). Under the terms of the Exchange Agreement, Investment Bank will make representations to the effect that: (i) any debt delivered to Distributing in the Debt Retirement was acquired by Investment Bank for its own account; (ii) no such debt was acquired by Investment Bank within 14 days of the Valuation Date; (iii) to the knowledge of Investment Bank, without independent inquiry, all such debt was acquired by Investment Bank from

third parties ("sellers") (and, other than as a dealer prior to sales to third parties, not from Distributing or any affiliate of Distributing); and (iv) at or prior to the time of the original issuance of such debt, there was no arrangement or understanding between Investment Bank and any seller that acquired such debt in connection with its original issuance (from Investment Bank as dealer or otherwise) that the seller would sell the debt to Investment Bank. Also, under the terms of the Exchange Agreement, Distributing will represent that neither it nor any of its affiliates sold any debt delivered to Distributing in the Debt Retirement to Investment Bank (other than as dealer). Investment Bank will sell to third parties pursuant to a public or private offering any Holdco Securities received from Distributing.

(viii) Pursuant to the Separation Agreement, the cash portion of the Consideration received by Distributing from Holdco pursuant to step (v) above will be maintained in a separate account, and for federal income tax purposes Distributing will take into account all items of income, gain, deduction or loss associated with the funds maintained in the separate account. The earnings on the funds held in the separate account, together with the cash portion of the Consideration, will be used to pay principal and interest on Eligible Debt (as described below) not later than the first anniversary of the Holdco Spin-Off.

Transfers by Distributing of (I) the cash portion of the Consideration and (II) Holdco Securities (pursuant to the Exchange Agreement or otherwise) will be made to pay principal or interest on (a) all or a portion of the Historic Distributing Long-Term Debt (as reduced by the amount of Refinancing CP) and/or (b) commercial paper outstanding on the date of the Holdco Spin-Off having a stated principal amount not in excess of the sum of (1) the amount of Historic CP (i.e., \$a), plus (2) the amount of Refinancing CP (the debt described in (a) and (b) above, collectively, "Eligible Debt").

(ix) Sub 1 will pay the Sub 1 Note previously delivered to Distributing (plus accrued interest). Repayment by Sub 1 of the Sub 1 Note will be funded out of third-party Sub 1 borrowings that Sub 1 intends to arrange prior to the Holdco Spin-Off (the "Sub 1 Borrowings"). Absent any delay in effecting the Sub 1 Borrowings, the Sub 1 Note will be paid no later than 30 days following the date of the Holdco Spin-Off. The Sub 1 Borrowings are currently expected to initially consist of a bridge facility with a third-party bank or banks, but it is possible that the Sub 1 Borrowings may be refinanced through a public or private debt offering. To the extent public or private debt is issued by Sub 1, such debt might be guaranteed by Holdco to facilitate public or private marketing.

To minimize or eliminate certain non-tax inefficiencies that would result if there were debt outstanding in both Sub 1 and Holdco following the Holdco Spin-Off, Sub 1 and Holdco are considering a consolidation at Holdco of any Sub 1 and Holdco debt following the Holdco Spin-Off. In this regard, Taxpayer has provided a letter from Bank

1 to the effect that Bank 1 could arrange for the borrowing by Sub 1 of \$c from unrelated parties based solely on its own creditworthiness (after taking into account credit support received from direct or indirect subsidiaries of Sub 1). Any Sub 1 Borrowings, in the aggregate, will not exceed \$c. At the time of the Holdco Spin-Off, there will be no pre-existing agreements or arrangements with third parties to provide Holdco or any of its affiliates any funds necessary to consolidate Sub 1 debt in Holdco.

In conjunction with the proposed transactions, Distributing and Holdco will enter into several agreements (the "Transaction Agreements") relating to (i) the separation of the Retail Service Businesses from Distributing's other businesses and (ii) certain continuing transactions between the companies (including, among others, such agreements as an employee matters agreement, a transition services agreement and a tax allocation agreement).

REPRESENTATIONS

The Internal Spin-Off:

Distributing makes the following representations with respect to the Internal Spin-Off:

(a) No part of the Internal Newco Common Stock to be distributed by Sub 1 in the Internal Spin-Off is intended to be received by Distributing as a creditor, employee, or in any capacity other than that of a shareholder of Sub 1.

(b) If Sub 1 and Internal Newco elect not to apply the transitional rule of §355(b)(3)(C) with respect to the Internal Spin-Off, Sub 1 and Internal Newco will treat all members of their respective separate affiliated groups as defined in §355(b)(3)(B) (hereinafter, "SAGs") as one corporation in determining whether it meets the requirements of §355(b)(2)(A) regarding the active conduct of a trade or business.

(c) Immediately following the Internal Spin-Off, at least 90-percent of the fair market value of the gross assets of Sub 1 will consist of the stock and securities of Sub 8, which is a controlled subsidiary engaged in the active conduct of a trade or business that will be relied upon to meet the requirements of §355(b) of the Code (with any trade or business relied upon by any person to meet the requirements of §355(b) referred to herein as an "Active Business").

(d) Immediately following the Internal Spin-Off, at least 90-percent of the fair market value of the gross assets of Internal Newco will consist of the stock and securities of Sub 7, which is a controlled subsidiary indirectly engaged in an Active Business.

(e) Immediately following the Internal Spin-Off, at least 90-percent of the fair market value of the gross assets of Sub 7 will consist of the stock and securities of Sub 10, which is a controlled subsidiary engaged in an Active Business.

(f) Sub 8 will be a member of Sub 1's SAG. Sub 10 will be a member of Internal Newco's SAG.

(g) The 5 years of financial information submitted on behalf of Sub 8 (and Business A1) is representative of the corporation's (and Business A1's) present operation, and with regard to such corporation (and Business A1), there have been no substantial operational changes since the date of the last financial statements submitted.

(h) The 5 years of financial information submitted on behalf of Sub 10 (and Business B1) is representative of the corporation's (and Business B1's) present operation, and with regard to such corporation (and Business B1), there have been no substantial operational changes since the date of the last financial statements submitted.

(i) Following the Internal Spin-Off, each of Sub 1 (through Sub 8) and Internal Newco (through Sub 7, and Sub 7's controlled subsidiary Sub 10) will continue the active conduct of its Active Business, independently and with its separate employees.

(j) Sub 1's distribution of Internal Newco Common Stock pursuant to the Internal Spin-Off will be carried out for the following corporate business purpose: to facilitate the Holdco Spin-Off by separating from Sub 1 certain assets and subsidiaries not used in the Retail Service Businesses. Sub 1's distribution of Internal Newco stock pursuant to the Internal Spin-Off will be motivated, in whole or substantial part, by this corporate business purpose.

(k) The Internal Spin-Off will not be used principally as a device for the distribution of the earnings and profits of Sub 1 or Internal Newco or both.

(l) The total adjusted bases and the fair market value of the assets to be transferred to Internal Newco by Sub 1 will equal or exceed the sum of the liabilities assumed by Internal Newco plus any liabilities to which the transferred assets are subject, and any liabilities assumed in the transaction and the liabilities to which the transferred assets will be subject will have been incurred in the ordinary course of business and will be associated with the assets being transferred.

(m) Sub 1 neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.

(n) No intercorporate debt will exist between Sub 1 and Internal Newco at the time of, or subsequent to, the Internal Spin-Off.

(o) Payments made in connection with all continuing transactions between Sub 1 and its subsidiaries, on the one hand, and Internal Newco and its subsidiaries, on the other, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(p) No two parties to the transaction are investment companies as defined in §§368(a)(2)(F)(iii) and (iv).

(q) The Internal Spin-Off is not part of a plan or series of related transactions (within the meaning of Treas. Reg. §1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of §355(d)(4)) in Sub 1 or Internal Newco (including any predecessor or successor of any such corporation).

The Holdco Spin-Off:

(a) No part of the consideration to be distributed by Distributing to a Distributing Stockholder in the Holdco Spin-Off will be received by the Distributing Stockholder as a creditor, employee, or in any capacity other than that of a Distributing Stockholder.

(b) No part of the Holdco Securities to be delivered by Distributing pursuant to the Exchange Agreement will be received by Investment Bank as an employee or in any capacity other than that of a creditor of Distributing.

(c) If Distributing and Holdco elect not to apply the transitional rule of §355(b)(3)(C) with respect to the Holdco Spin-Off, Distributing and Holdco will treat all members of their respective SAGs as one corporation in determining whether it meets the requirements of §355(b)(2)(A) regarding the active conduct of a trade or business.

(d) Immediately following the Holdco Spin-Off, at least 90-percent of the fair market value of the gross assets of Holdco will consist of the stock and securities of Sub 1, which is a controlled subsidiary indirectly engaged in an Active Business.

(e) Immediately following the Holdco Spin-Off, at least 90-percent of the fair market value of the gross assets of Sub 1 will consist of the stock and securities of Sub 8, which is a controlled subsidiary directly engaged in an Active Business.

(f) Sub 8 will be a member of Holdco's SAG.

(g) The 5 years of financial information submitted on behalf of Sub 6 (and Businesses C1 and C2) is representative of Sub 6's (and Business C1's and Business C2's) present operation, and with regard to such corporation (and Business C1 and Business C2), there have been no substantial operational changes since the date of the last financial statements submitted.

(h) The 5 years of financial information submitted on behalf of Sub 8 (and Business A1) is representative of the corporation's (and Business A1's) present operation, and with regard to such corporation (and Business A1), there have been no substantial operational changes since the date of the last financial statements submitted.

(i) Following the Holdco Spin-Off, each of Distributing (through Sub 6, LLC) and Holdco (through Sub 1, and Sub 1's controlled subsidiary Sub 8) will continue the active conduct of its Active Business, independently and with its separate employees.

(j) The distribution of Holdco Common Stock in connection with the Holdco Spin-Off will be carried out for the following corporate business purposes: (i) to allow the managements of Distributing and Holdco to focus their attention and financial resources on their own distinct businesses and business challenges and provide Holdco's management with the flexibility to invest excess cash flow generated by the Retail Service Businesses in various initiatives that would otherwise be constrained if the Retail Service Businesses remained a part of Distributing, (ii) to allow the managements of Distributing and Holdco to pursue desired acquisitions without creating conflicts with the businesses of the other entity, (iii) to develop employee incentive programs at Distributing and Holdco more directly linked to the performance of the businesses conducted by each, and (iv) to improve the likelihood that each of Distributing and Holdco will receive appropriate market recognition of its performance and potential. The Holdco Spin-Off is motivated, in whole or substantial part, by one or more of these corporate business purposes.

(k) The Holdco Spin-Off will not be used principally as a device for the distribution of the earnings and profits of Distributing or Holdco or both.

(l) The total adjusted bases and the fair market value of the assets to be transferred to Holdco by Distributing will equal or exceed the sum of the liabilities assumed by Holdco plus any liabilities to which the transferred assets are subject, and any liabilities assumed in the transaction and the liabilities to which the transferred assets will be subject will have been incurred in the ordinary course of business and will be associated with the assets being transferred.

(m) Except as otherwise described herein, Distributing neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.

(n) No intercorporate debt will exist between Distributing and Holdco at the time of, or subsequent to, the distribution of the Holdco Common Stock, except for the Holdco Securities and any indebtedness arising under the Transaction Agreements.

(o) Immediately prior to the Holdco Spin-Off, but taking into account ruling (22), items of income, gain, deduction, loss and credit will be taken into account as required by the applicable intercompany transaction regulations (see Treas. Reg. §1.1502-13 and Treas. Reg. §1.1502-14 as in effect prior to the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect, Treas. Reg. §1.1502-13 as published by T.D. 8597). Further, any excess loss account of Distributing with respect to Holdco Common Stock or the stock of any direct or indirect subsidiaries of Holdco will be included in income immediately prior to the distribution (see Treas. Reg. §1.1502-19).

(p) Payments made in connection with all continuing transactions between Distributing and its subsidiaries, on the one hand, and Holdco and its subsidiaries, on the other, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(q) No two parties to the transaction are investment companies as defined in §368(a)(2)(F)(iii) and (iv).

(r) The Holdco Spin-Off is not part of a plan or series of related transactions (within the meaning of Treas. Reg. §1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of §355(d)(4)) in Distributing or Holdco (including any predecessor or successor of any such corporation).

The Sub 1 Merger:

(a) The fair market value of the Distributing stock received by each Sub 1 shareholder in the Sub 1 Merger was approximately equal to the fair market value of the Sub 1 stock surrendered by that shareholder in the Sub 1 Merger.

(b) At the time of the Sub 1 Merger, Sub 1 did not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in Sub 1 that, if exercised or converted, would affect Distributing's acquisition or retention of control (within the meaning of §368(c)) of Sub 1.

(c) At the time of the Sub 1 Merger, Distributing had no plan or intention to reacquire any of its stock issued in the Sub 1 Merger, other than stock acquired pursuant to a pre-existing open market repurchase program that was not expanded in connection with the Sub 1 Merger.

(d) At the time of the Sub 1 Merger, Distributing did not own, directly or indirectly, nor did it own during the five years preceding the Sub 1 Merger, directly or indirectly, any stock of Sub 1 other than the stock of Sub 1 acquired in the Nominal Share Purchase.

(e) At the time of the Sub 1 Merger, Distributing had no plan or intention to liquidate Sub 1; to merge Sub 1 into another corporation; to cause Sub 1 to sell or otherwise dispose of any of its assets, except for dispositions made in the ordinary course of business and except as described in the following sentence; or to sell or otherwise dispose of the stock of Sub 1, except for transfers described in §368(a)(2)(C). In connection with the opinion rendered by tax counsel at the time of the Sub 1 Merger, Distributing was given the leeway potentially to transfer certain contracts held by subsidiaries of Sub 1 having an aggregate value as of the effective time of the Sub 1 Merger not in excess of g-percent of the equity value of Sub 1 at that time to certain partnerships.

(f) At the time of the Sub 1 Merger, Sub 1 had no plan or intention to issue additional shares of stock that would result in Distributing losing control (within the meaning of §368(c)) of Sub 1.

(g) In connection with the Sub 1 Merger, Distributing paid or assumed only those expenses of Sub 1 that were solely and directly related to the Sub 1 Merger in accordance with the guidelines established in Rev. Rul. 73-54, 1973-1 C.B. 187. Otherwise, Distributing, Sub 1 and the shareholders of Sub 1 paid their respective expenses, if any, incurred in connection with the Sub 1 Merger.

(h) In the Sub 1 Merger, except for the payment of cash in lieu of fractional shares, Distributing acquired Sub 1 stock solely in exchange for Distributing voting stock. For purposes of this representation, Sub 1 stock redeemed for cash or other property furnished by Distributing or an affiliate of Distributing is considered acquired by Distributing. Furthermore, no liabilities of Sub 1 or its shareholders were assumed by Distributing, nor was any of the Sub 1 stock acquired by Distributing subject to any liabilities, except that Distributing became jointly and severally liable on outstanding debentures of Sub 1 and Sub 1 affiliates that were convertible into Sub 1 stock and which became convertible into the stock of Distributing upon consummation of the Sub 1 Merger. For purposes of this representation, the acquisition of Sub 1 shares in the Nominal Share Purchase is not taken into account.

(i) Following the Sub 1 Merger, Sub 1 continued its historic business or used a significant portion of its historic business assets in a business.

(j) At the time of the Sub 1 Merger, no two parties to the Sub 1 Merger were investment companies as defined in §§368(a)(2)(F)(iii) and (iv).

(k) On the date of the Sub 1 Merger, the fair market value of the assets of Sub 1 exceeded the sum of its liabilities plus the liabilities, if any, to which those assets were subject.

(l) No Sub 1 shareholders dissented from the Sub 1 Merger.

(m) The payment of cash in lieu of fractional shares of Distributing stock to the holders of Sub 1 stock was solely for the purpose of avoiding the expense and inconvenience to Distributing of issuing fractional shares and did not represent separately bargained-for consideration.

(n) The total cash consideration that was paid in the Sub 1 Merger to the holders of Sub 1 stock instead of using fractional shares of Distributing stock did not exceed one percent of the total consideration that was issued in the Sub 1 Merger to holders of Sub 1 stock in exchange for their Sub 1 stock.

(o) None of the compensation received by any shareholder-employees of Sub 1 was separate consideration for, or allocable to any of, their shares of Sub 1 stock; none of the shares of Distributing stock received by any shareholder-employees in the Sub 1 Merger was separate consideration for, or allocable to, any employment agreement; and the compensation paid to any shareholder-employees was for services actually rendered and was commensurate with amounts paid to third parties bargaining at arm's-length for similar services.

(p) All federal income tax consequences reported on any previously filed tax return of Distributing are consistent with the characterization of the Sub 1 Merger as a reorganization under §368(a)(1)(B); no determination by Distributing of the basis in its Sub 1 stock has been taken into account in preparing, or has been reflected on, any previously filed federal income tax return of Distributing.

(q) The Sub 1 Merger did not result in a "group structure change" as defined for purposes of §1.1502-31(a), as in effect at the time of the Sub 1 Merger.

RULINGS

Based on the information submitted and representations made, we rule as follows on the proposed transactions:

The Sub 1 Dividend:

(1) No income, gain or loss will be recognized by Distributing upon receipt of the Sub 1 Dividend (Treas. Reg. §1.1502-13(f)(2)(ii)). Distributing will recognize gain equal to any excess of the fair market value of the stock Sub 2 at the time the stock of Sub 2 is transferred to Sub 1 over the basis of such stock in the hands of Distributing immediately prior to such transfer. Any such gain will be deferred pursuant to Treas. Reg. §1.1502-13, and will be taken into account by Distributing at the time of the Holdco Spin-Off. Treas. Reg. §1.1502-13(d).

(2) Distributing's basis in the stock of Sub 1, immediately following the Sub 1 Dividend and the transfer to Sub 1 of the stock of Sub 2, will be determined before taking into account the adjustment to the basis of Sub 1 stock described in ruling (11), and will equal Distributing's basis in the stock of Sub 1 immediately before the Sub 1 Dividend and such transfer, decreased by the Sub 1 Dividend (Treas. Reg. §1.1502-32(b)(2)(iv)).

(3) Sub 1's basis in the stock of Sub 2 immediately after the transfer of such stock to Sub 1 will equal the fair market value of such stock at that time. §1012.

The Internal Newco Contribution and the Internal Spin-Off;

(4) The Internal Newco Contribution and the Internal Spin-Off, taken together, will qualify as a reorganization described in §368(a)(1)(D). Each of Sub 1 and Internal Newco will be a "party to the reorganization" within the meaning of §368(b).

(5) No income, gain or loss will be recognized by Sub 1 in connection with the Internal Newco Contribution. §361(a).

(6) No income, gain or loss will be recognized by Internal Newco in connection with the Internal Newco Contribution. §1032(a).

(7) Immediately following the Internal Newco Contribution, Internal Newco's basis in the stock of Sub 9 and Sub 7 (and other assets) received in the Internal Newco Contribution will equal the basis of that stock (and other assets) in the hands of Sub 1 immediately prior to the Internal Newco Contribution. §362(b).

(8) Internal Newco's holding period for the stock of Sub 9 and Sub 7 (and any other assets) received in the Internal Newco Contribution will include the period that Sub 1 held that stock (and those other assets) prior to the Internal Newco Contribution. §1223(2).

(9) No income, gain or loss will be recognized by Sub 1 in connection with the Internal Spin-Off. §361(c).

(10) No income, gain or loss will be recognized by Distributing in connection with the Internal Spin-Off. §355(a).

(11) The aggregate basis of the Sub 1 Common Stock and Internal Newco Common Stock in the hands of Distributing immediately following the Internal Spin-Off will equal the basis of the Sub 1 Common Stock held by Distributing immediately prior to the Internal Spin-Off (determined after taking into account any adjustments to the basis of the Sub 1 stock described in ruling (2)), and will be allocated between the Sub 1 Common Stock and Internal Newco Common Stock in proportion to the fair market value of each. §358(b).

(12) Assuming that the Sub 1 Common Stock held by Distributing is a capital asset in the hands of Distributing, the holding period for the Internal Newco Common Stock received by Distributing in connection with the Internal Spin-Off will be the same as Distributing's holding period for the Sub 1 Common Stock. §1223(1).

The Contribution and the Holdco Spin-Off:

(13) The Contribution and the Holdco Spin-Off, taken together, will qualify as a reorganization described in §368(a)(1)(D). Each of Distributing and Holdco will be a "party to the reorganization" within the meaning of §368(b).

(14) To the extent the cash portion of the Consideration does not exceed the aggregate adjusted basis of the Contribution (reduced by any liabilities assumed by Holdco), no income, gain or loss will be recognized by Distributing in connection with the Contribution. §361(a), (b), (c) and §357(a).

(15) No income, gain or loss will be recognized by Holdco in connection with the Contribution. §1032(a).

(16) Immediately following the Contribution, Holdco's basis in the stock of Sub 1, Sub 3, Sub 4, and Sub 5 received in the Contribution, and in the Other Assets received in the Contribution, will equal the basis thereof in the hands of Distributing immediately prior to the Contribution (after taking into account the adjustments to the basis of the Sub 1 stock described in rulings (2) and (11)). §362(b).

(17) Holdco's holding period for the stock of Sub 1, Sub 3, Sub 4 and Sub 5 received in the Contribution, and for the Other Assets received in the Contribution, will include the period that Distributing held that stock or the Other Assets, as the case may be, prior to the Contribution. §1223(2).

(18) No income, gain or loss will be recognized by Distributing in connection with the Holdco Spin-Off. §361(c).

(19) No income, gain or loss will be recognized by the Distributing Stockholders in connection with the Holdco Spin-Off. §355(a). Section 355(a)(3)(B) will not treat as "other property" any part of the Holdco Common Stock constructively issued by Holdco to Distributing in exchange for any intellectual property rights transferred to Holdco in the Contribution.

(20) The aggregate basis of the Distributing common stock and Holdco Common Stock in the hands of the Distributing Stockholders following the Holdco Spin-Off will equal the basis of the Distributing common stock held by the Distributing Stockholders immediately prior to the Holdco Spin-Off and will be allocated between the Distributing common stock and Holdco Common Stock in proportion to the fair market value of each. §358(b).

(21) Assuming that the Distributing common stock held by the Distributing Stockholders is a capital asset in the hands of such stockholders, the holding period for Holdco Common Stock received by the Distributing Stockholders in connection with the Holdco Spin-Off will be the same as their holding periods for the related Distributing common stock. §1223(1).

The Holdco Securities and the Debt Retirement:

(22) Provided that the Holdco Securities included in the Consideration are transferred by Distributing on the date of the Holdco Spin-Off (or shortly thereafter in connection with the Debt Retirement), (i) any income, gain, deduction or loss recognized by Distributing on the deemed satisfaction of the Holdco Securities described in §1.1502-13(g) immediately prior to the Holdco Spin-Off (the deemed satisfaction) will be redetermined to be excluded from Distributing's gross income (§1.1502-13(c)(1) and (c)(6)), except to the extent of any such income, gain or loss equal to an offsetting amount of income, gain, deduction or loss taken into account by Holdco from the deemed satisfaction (attributable to any difference between the adjusted issue price and fair market value of the Holdco Securities at the time of the deemed satisfaction) and (ii) Distributing's basis in its Holdco Common Stock will not be reduced as a result of the deemed satisfaction, except to the extent Holdco takes into account any deduction from the deemed satisfaction (e.g., repurchase premium attributable to any difference between the adjusted issue price and fair market value of the Holdco Securities at the time of the deemed satisfaction). No opinion is expressed as to the tax treatment of any gain or loss realized by Distributing upon the transfer of the Holdco Securities in the Debt Retirement that may arise from changes in the basis of the Holdco Securities from their basis immediately after the Holdco Spin-Off (i.e., their value at such time) or changes in the value of the Holdco Securities from their value immediately after the Holdco Spin-Off.

The Sub 1 Merger:

(23) For the current year, Distributing is entitled to determine the basis in its Sub 1 stock in accordance with the method described in Treas. Reg. §1.358-6(c)(2)(ii)(B) (applicable to reorganizations under § 368(a)(1)(B)).

The rulings in this letter will apply whether or not an election is made with respect to the Internal Spin-Off or the Holdco Spin-Off not to apply the transitional rule of §355(b)(3)(C).

CAVEATS

We express no opinion about the tax treatment of the proposed transactions under other provisions of the Code and regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transactions that are not specifically covered by the above rulings. In particular, no opinion is given regarding—(A) whether either Spin-Off (i) satisfies the business purpose requirement of Treas. Reg. §1.355-2(b); (ii) is used principally as a device for the distribution of earnings and profits of the distributing corporation or the controlled corporation or both (see §355(a)(1)(B) of the Internal Revenue Code and Treas. Reg. §1.355-2(d)); or (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or the controlled corporation and (B) whether the transfer of any intellectual property rights in the Contribution constitutes a transfer of property (see Rev. Rul. 69-156, 1969-1 C.B. 101).

PROCEDURAL STATEMENTS

This ruling letter is directed only to the taxpayers who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, any taxpayer filing its return electronically may satisfy this requirement by attaching a statement to the return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter will be sent to your authorized representative.

Sincerely,

Michael J. Wilder
Senior Technician Reviewer, Branch 1
Office of Associate Chief Counsel (Corporate)